



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 1997 TAXES
AND 1997 UNMINED COAL TAXES**

October 21, 1998

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EXECUTIVE SUMMARY
LAUREL COUNTY
SHERIFF'S SETTLEMENT-1997 TAXES

We have completed our audit of the Laurel Sheriff's 1997 Tax Settlement and reported the following findings:

- The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits.
- The Sheriff Should Make Monthly Interest Distributions To The School Districts.
- There Was A Lack Of Proper Segregation Of Duties.

INTERNAL CONTROL-REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

- There Was A Lack Of Adequate Segregation of Duties
- The Sheriff Should Not Have A Deficit In His Tax Account

PRIOR YEAR FINDINGS:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Make Monthly Interest Distributions To The School Districts
- The Sheriff Owes Additional Interest To The Schools And To His Fee Account
- The Sheriff Owes Additional Taxes
- The Sheriff Should Not Have A Deficit In His Tax Account

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Jimmy Williams, Laurel County Judge/Executive

Honorable Gene Hollon, Laurel County Sheriff

Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 1997 Taxes as of October 21, 1998, and the Sheriff's Settlement - 1997 Unmined Coal Taxes as of October 21, 1998. These tax settlements are the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid as of October 21, 1998, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Make Monthly Interest Distributions To The School Districts

In accordance with Government Auditing Standards, we have also issued a report dated May 8, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 8, 2000

LAUREL COUNTY
GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 1997 TAXES

October 21, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 815,453	\$ 594,869	\$ 4,789,795	\$ 1,508,458
Tangible Personal Property	165,200	104,318		553,055
Intangible Personal Property				185,779
Fire Protection	1,798			
Franchise Corporation	61,241	39,327	299,101	
Prior Year Franchise Corporation	1,225	502	4,029	
Franchise Penalty and Interest	194	91	720	
Increased Through Erroneous Assessments	2,952	2,026	14,445	5,609
Penalties	11,534	8,166	55,200	22,511
Adjusted to Sheriff's Receipt	22	266		326
Gross Chargeable to Sheriff	<u>\$ 1,059,619</u>	<u>\$ 749,565</u>	<u>\$ 5,163,290</u>	<u>\$ 2,275,738</u>
<u>Credits</u>				
Discounts	\$ 12,351	\$ 8,678	\$ 60,228	\$ 30,032
Exonerations	8,013	5,645	39,042	16,109
Delinquents:				
Real Estate	49,388	35,583	240,121	91,084
Tangible Personal Property	768	486	3,761	3,358
Intangible Personal Property				848
Total Credits	<u>\$ 70,520</u>	<u>\$ 50,392</u>	<u>\$ 343,152</u>	<u>\$ 141,431</u>
Net Tax Yield	\$ 989,099	\$ 699,173	\$ 4,820,138	\$ 2,134,307
Less: Commissions *	<u>42,324</u>	<u>29,715</u>	<u>72,180</u>	<u>90,996</u>
Net Taxes Due	\$ 946,775	\$ 669,458	\$ 4,747,958	\$ 2,043,311
Taxes Paid	946,009	668,989	4,744,270	2,042,208
Additional Penalty				234
Refunds (Current and Prior Year)	<u>785</u>	<u>503</u>	<u>3,688</u>	<u>1,337</u>
Due Districts		**		
as of Completion of Fieldwork	<u><u>\$ (20)</u></u>	<u><u>\$ (34)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

* and ** See Page 4

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 SHERIFF'S SETTLEMENT - 1997 TAXES
 October 21, 1998
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,812,579
1.5% on	\$	4,771,226
1.25% on	\$	48,912

** Special Taxing Districts:

Library District	\$	(5)
Health District		(5)
Extension District		(3)
Soil District		(1)
Bush Fire District		(20)

(Refunds Due Sheriff)	\$	(34)
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LAUREL COUNTY
 GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 1997 UNMINED COAL TAXES

October 21, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 21	\$ 14	\$ 102	\$ 38
<u>Credits</u>				
Discounts	0	0	2	0
Net Tax Yield	\$ 21	\$ 14	\$ 100	\$ 38
Less: Commissions *	1	0	2	2
Net Taxes Due	\$ 20	\$ 14	\$ 98	\$ 36
Taxes Paid	20	14	98	36
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$	73
1.5% on	\$	100

The accompanying notes are an integral part of the financial statements.

LAUREL COUNTY
NOTES TO THE FINANCIAL STATEMENTS

October 21, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the Sheriff.

LAUREL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
October 21, 1998
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1997. Property taxes were billed to finance governmental services for the year ended June 30, 1998. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 31, 1997 through October 21, 1998.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1997. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 22, 1997 through October 1, 1998.

Note 4. Interest Income

The Laurel County Sheriff earned \$13,379 as interest income on 1997 taxes. The Sheriff distributed \$5,874 to the school district. However, the Sheriff did not make these interest payments monthly as required by statute. The Sheriff owes an additional \$8 to the school. The remainder will be used to operate the Sheriff's office.

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COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS

October 21, 1998

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$3,627,350; FDIC insurance of \$100,000; and collateral pledged of \$7,500,000 as of October 21, 1998. Even though the Sheriff obtained pledged collateral of \$7,500,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

The Sheriff's Response:

This is being taken care. A copy has already been submitted to the bank.

2) The Sheriff Should Make Monthly Interest Distributions To The School Districts

The Sheriff did not pay the Laurel County Board of Education or the East Bernstadt Board of Education their share of interest earned on taxes until the completion of tax collections. KRS 134.140 requires the Sheriff to pay to the boards of education, at the time of his monthly distribution of taxes, that part of investment earnings for the month which is attributable to the investment of school taxes. We recommend distributions of the school's share of interest income be made monthly.

The Sheriff's Response:

This will be done.

PRIOR YEAR:

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff Should Make Monthly Interest Distributions To The School Districts

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Laurel County Sheriff's Settlement - 1997 Taxes as of October 21, 1998, and Sheriff's Settlement - 1997 Unmined Coal Taxes as of October 21, 1998, and have issued our report thereon dated May 8, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing
Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 8, 2000

